

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

COMMONWEALTH OF VIRGINIA)	
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At the relation of the)	
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STATE CORPORATION COMMISSION)	CASE NO. PUE-2002-00645
)	
Ex parte: In the matter concerning)	
the provision of default service to retail)	
customers under the provisions of the)	
Virginia Electric Utility Restructuring Act)	

**COMMENTS OF
VIRGINIA ELECTRIC AND POWER COMPANY
ON THE
STAFF REPORT**

I. BACKGROUND

On December 23, 2002, the State Corporation Commission ("Commission") issued an Order Establishing Investigation ("Order") in the above-referenced proceeding. In its Order, the Commission directed the Commission's Staff to invite representatives of incumbent electric utilities, competitive suppliers, retail customers and other interested parties to participate in a work group to assist the Staff in determining the components of default service in furtherance of the Commission's obligations under of the Virginia Electric Utility Restructuring Act, § 56-576 et seq. (the "Act") of the Code of Virginia, and specifically § 56-585. Three work group sessions were held at the Commission on March 4, 2003, March 26, 2003, and April 22, 2003.

The Order further directed the Staff to file, on or before May 1, 2003, a report including recommendations of the determination of the components of default service and for establishing appropriate programs for making such service available to customers.

On May 1, 2003, the Staff filed its report ("Report") detailing the workgroup participant's positions, the Staff's conclusions, and the Staff's recommendations to the Commission. Interested parties were directed to file any comments or requests for hearing on the Report on or before May 16, 2003.

Virginia Electric and Power Company ("Dominion Virginia Power" or the "Company") hereby submits its comments on the Report.

II. COMMENTS ON STAFF'S RECOMMENDATIONS

Staff Recommendation 1

The Staff recommended that the Commission:

- 1) Determine that effective January 1, 2004, and until modified by future order of the Commission, the components of Default Service include all elements of Electricity Supply Service as defined by the Commission's Rules Governing Retail Access to Competitive Energy Services;

Report, p. 8 (footnote omitted).

The Company concurs in this recommendation. The Staff concludes, and the Company agrees, that such a determination by the Commission would be consistent with the current early state of competitive retail and wholesale market development. *See* Report, p. 4. The Staff notes that most work group participants agreed that the definition and provision of default service will be a complex and evolving process. Most participants also appeared to believe that, with a shorter-term focus in mind, an initial determination of the components of default service should maintain simplicity, with the flexibility to modify the structure as the competitive market develops. *Id.*

The Company agrees with the Staff's observations and believes that the bundled default service model proposed by the Staff would achieve the stated objectives of simplicity and flexibility. By providing for the same service components as those

contained in electricity supply service provided by competitive service providers or the incumbent utilities, the Staff's proposed model will initially help reduce customer confusion about default service. In addition, for purposes of conducting a competitive default service program, this model would provide a consistent basis for bidders to submit, and for the Commission to evaluate, bids in response to an RFP for default service.

The Company agrees with Staff that, as the market develops, the benefits and costs of unbundling or otherwise modifying the components of default service should be periodically evaluated. *See Report*, pp. 4 – 5. Additionally, the retail access rules, electronic data exchange protocols, and business systems currently in place will need to be reviewed and possibly revised as the requirements of default service are further developed.

Staff Recommendation 2

Staff also recommends that the Commission:

2) Require Appalachian Power Company, Delmarva Power & Light Company, The Potomac Edison Company, and Virginia Electric and Power Company, effective January 1, 2004 and until modified by future order of the Commission, to provide default service to all retail customers requiring such service within their respective service territories under the rates, terms, and conditions of capped rate Electricity Supply Service.

Report, p. 8.

The Company also concurs in the this recommendation. In making this recommendation, the Staff found that “there is substantial uncertainty as to the feasibility of an entity other than the incumbent utility providing default service until the end of the capped rate period.” *Report*, p. 7. The Company agrees that, until a competitive default

service program becomes feasible and competitive suppliers are willing and able to submit competitive bids for default service, incumbent utilities should provide default service at capped rates during the rate cap period, as provided in the Act, effective January 1, 2004.

The Company believes, however, that the Commission should continue to explore the development of competitive default service. The Company's proposed competitive default service pilot program (filed on March 19, 2003) will provide valuable insight into potential issues that may arise in the competitive bidding process for default service and will assist the Commission in developing rules and guidelines for a competitive default service bidding process.

III. ADDITIONAL COMMENTS

As Staff observes in the Report, "[t]he default service work group has barely scratched the surface of issues to be studied with respect to the establishment of a long-term default service model." Report, p. 7. One of the important issues that must be further examined is whether § 56-585 of the Act allows the Commission to designate a provider of wholesale default service to the incumbent utility on behalf of retail customers. The work group did not reach a consensus on this issue. *See* Report, p. 6.

Dominion Virginia Power reiterates its position, as stated in its written comments submitted to the work group on March 19, 2003, that the Act does not provide for a "wholesale model for default service"¹ during the period when capped rates are available.

¹ As the term is used herein and in the Company's March 19 comments, "wholesale model for default service," refers to a system in which: (1) the regulated distributor procures from generators in the wholesale market, based on a plan as described in § 56-585.C.3, some or all of the supply of electricity required to provide default service to retail customers, and (2) passes the cost of that electricity supply, along with other appropriate adders, on to customers through a market-based rate approved by the SCC. In contrast, a competitive retail default service model involves a procedure whereby (1) the Commission utilizes a competitive process to identify one or more willing and suitable competitive service provider(s)

The Act clearly contemplates that, during the capped rate period, default service provided by a competitive service provider will be delivered to retail customers. As the Company stated in its comments, this intent is evident in the language of the Act, including the provisions of § 56-585. The Company believes the Act would allow for the development of a *wholesale model, under which the distributor would provide default service at market prices, but only after the expiration or termination of the capped rate period.* The process for developing such a wholesale model will take a significant amount of time to prepare for implementation. Thus, the Company believes that the development process should begin as early as 2004.

In light of the evolutionary process contemplated by the Staff and the work group participants, the Company agrees that the continued investigation of the many issues related to the provision of default service is appropriate and necessary. As discussed in the Report, Staff plans to request the continued assistance of the work group as it relates to studying various models developed in other states, using the results of the project being coordinated by the Center for the Advancement of Energy Markets, and the default service pilot program proposed by the Company on March 19, 2003. The Staff advises that its most immediate focus will be on the Company's proposed default service pilot program. Report, pp. 7 – 8. The Company looks forward to working with the Staff and other interested parties in examining default service issues, particularly issues concerning competitive default service, in the context of its pilot program.

("CSP") to provide electricity supply service to customers that are not currently served by a CSP, and (2) *customers are aggregated and assigned to that CSP(s).*

IV. CONCLUSION

Dominion Virginia Power concurs with the recommendations of the Staff in its May 1, 2003 Report. The Company also agrees that further investigation into provision of default service is needed.

Dominion Virginia Power does not request a hearing on the Report, but reserves the right to participate if a hearing is scheduled.

WHEREFORE, Dominion Virginia Power respectfully requests that the Commission consider these comments on the Report.

Respectfully submitted,

VIRGINIA ELECTRIC AND POWER
COMPANY

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